

**REPORT OF THE AUDIT OF THE
METCALFE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE METCALFE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Metcalfe County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances decreased by \$1,610,198 from the beginning of the year, resulting in a cash surplus of \$1,534,977 as of June 30, 2003.

Debt Obligations:

Total bonded debt principal as of June 30, 2003, was \$4,850,000. Future collections of \$7,407,778 are needed over the next twenty years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$353,464 as of June 30, 2003. Future principal and interest payments of \$455,847 are needed to meet these obligations.

Report Comment:

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral of \$1,545,805 And Enter Into A Written Agreement To Protect Deposits

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Donald M. Butler, II, Metcalfe County Judge/Executive
Members of the Metcalfe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Metcalfe County, Kentucky, as of June 30, 2003, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Metcalfe County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Metcalfe County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Metcalfe County, Kentucky, as of June 30, 2003, and its receipts and disbursements for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky
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In accordance with Government Auditing Standards, we have also issued our report dated January 26, 2004 on our consideration of Metcalfe County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Metcalfe County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral of \$1,545,805 And Enter Into A Written Agreement To Protect Deposits

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
January 26, 2004

METCALFE COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

Donald M. Butler, II	County Judge/Executive
Jessie Harper	Magistrate
Barry Steele	Magistrate
Dale Rowlett	Magistrate
Greg White	Magistrate

Other Elected Officials:

John P. Blevins	County Attorney
Matthew Gallagher	Jailer
Carol E. England	County Clerk
Mary M. Shive	Circuit Court Clerk
Rondal Shirley	Sheriff
Michael Welsh	Property Valuation Administrator
Larry Wilson	Coroner

Appointed Personnel:

Martha C. Richardson	County Treasurer
Laura Rigdon	Occupational Tax Collector
Amanda Bragg	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

METCALFE COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	Governmental Fund Types			
	General	Special Revenue	Capital Projects	Debt Service
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash	\$ 1,527,147	\$ 1,693	\$ 7,648	\$
Total Assets	\$ 1,527,147	\$ 1,693	\$ 7,648	\$ 0
<u>Other Resources</u>				
Amounts to Be Provided in Future Years for:				
Capital Leases	\$ 353,465	\$	\$	\$
Bond Payments				4,850,000
Total Other Resources	\$ 353,465	\$ 0	\$ 0	\$ 4,850,000
Total Assets and Other Resources	\$ 1,880,612	\$ 1,693	\$ 7,648	\$ 4,850,000

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

Totals
(Memorandum Only)

\$ 1,536,488

\$ 1,536,488

\$ 353,465
4,850,000

\$ 5,203,465

\$ 6,739,953

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Capital Leases	\$ 353,465	\$	\$	\$
Bonds:				
Series 2001				4,850,000
Payroll Liabilities	<u>1,512</u>	<u></u>	<u></u>	<u></u>
Total Liabilities	<u>\$ 354,977</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,850,000</u>
<u>Equity</u>				
Fund Balances:				
Reserved	\$ 312,400	\$ 1,693	\$ 7,648	
Unreserved	<u>1,213,235</u>	<u></u>	<u></u>	<u></u>
Total Equity	<u>\$ 1,525,635</u>	<u>\$ 1,693</u>	<u>\$ 7,648</u>	<u>\$ 0</u>
Total Liabilities and Equity	<u><u>\$ 1,880,612</u></u>	<u><u>\$ 1,693</u></u>	<u><u>\$ 7,648</u></u>	<u><u>\$ 4,850,000</u></u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

Totals
(Memorandum Only)

\$	353,465
	4,850,000
	<u>1,512</u>
\$	<u>5,204,977</u>

\$	321,741
	<u>1,213,235</u>

\$	<u>1,534,976</u>
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\$	<u><u>6,739,953</u></u>
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The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

METCALFE COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2003

	General Fund Types			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,226,849	\$ 1,090,110	\$ 861,700	\$ 39,005
Other Financing Sources:				
Transfers In	353,815	153,175	16,000	60,305
Kentucky Advance Revenue Program	1,313,400	726,600	586,800	
Interest Earned On Lease Proceeds	520	520		
Total Cash Receipts	<u>\$ 3,894,584</u>	<u>\$ 1,970,405</u>	<u>\$ 1,464,500</u>	<u>\$ 99,310</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 3,658,185	\$ 848,743	\$ 742,589	\$ 104,956
Other Financing Uses:				
Schedule of Other Expenditures	102,092	100		
Transfers Out	353,815	90,512	123,811	
Principal on Capital Leases	77,290	28,484	48,806	
Kentucky Advance Revenue Program Repaid	1,313,400	726,600	586,800	
Total Cash Disbursements	<u>\$ 5,504,782</u>	<u>\$ 1,694,439</u>	<u>\$ 1,502,006</u>	<u>\$ 104,956</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (1,610,198)	\$ 275,966	\$ (37,506)	\$ (5,646)
Cash Balance - July 1, 2002	<u>3,145,175</u>	<u>546,930</u>	<u>438,872</u>	<u>9,081</u>
Cash Balance - June 30, 2003	<u>\$ 1,534,977</u>	<u>\$ 822,896</u>	<u>\$ 401,366</u>	<u>\$ 3,435</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
 STATEMENT OF CASH RECEIPTS,
 CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

General Fund Types				
Local Government Economic Assistance Fund	State Grant Fund	Disaster and Emergency Services Fund	Ambulance Fund	County Parks Fund
\$ 7,844	\$ 25,777	\$ 7,435	\$ 177,789	\$ 3,720
5,000		7,207	3,534	2,000
<u>\$ 12,844</u>	<u>\$ 25,777</u>	<u>\$ 14,642</u>	<u>\$ 181,323</u>	<u>\$ 5,720</u>
\$ 9,896	\$ 25,777	\$ 13,313	\$ 151,010	\$ 5,552
	5,449			
<u>\$ 9,896</u>	<u>\$ 31,226</u>	<u>\$ 13,313</u>	<u>\$ 151,010</u>	<u>\$ 5,552</u>
\$ 2,948	\$ (5,449)	\$ 1,329	\$ 30,313	\$ 168
672	5,449	1,518	260,688	302
<u>\$ 3,620</u>	<u>\$ 0</u>	<u>\$ 2,847</u>	<u>\$ 291,001</u>	<u>\$ 470</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
 STATEMENT OF CASH RECEIPTS,
 CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

	<u>Special Revenue Fund Types</u>		<u>Capital Projects Fund Type</u>	<u>Debt Service Fund Type</u>
	<u>Community Development Block Grant Fund</u>	<u>Animal Shelter Fund</u>	<u>Public Properties Corporation Construction Fund</u>	<u>Public Properties Corporation Sinking Fund</u>
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$	\$ 16	\$ 13,453	\$
Other Financing Sources:				
Transfers In			106,594	
Kentucky Advance Revenue Program				
Interest Earned On Lease Proceeds				
Total Cash Receipts	<u>\$ 0</u>	<u>\$ 16</u>	<u>\$ 120,047</u>	<u>\$ 0</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$	\$	\$ 1,756,349	\$
Other Financing Uses:				
Schedule of Other Expenditures				101,992
Transfers Out			27,449	106,594
Principal on Capital Leases				
Kentucky Advance Revenue Program Repaid				
Total Cash Disbursements	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,783,798</u>	<u>\$ 208,586</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$	\$ 16	\$ (1,663,751)	\$ (208,586)
Cash Balance - July 1, 2002	<u>4</u>	<u>1,674</u>	<u>1,671,399</u>	<u>208,586</u>
Cash Balance - June 30, 2003	<u>\$ 4</u>	<u>\$ 1,690</u>	<u>\$ 7,648</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Metcalfe County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, management has included the Metcalfe County Public Properties Corporation as part of the reporting entity.

Metcalfe County Public Properties Corporation

Fiscal Court has the authority to appoint a voting majority of the Metcalfe County Public Properties Corporation's (PPC) Board of Directors. Fiscal Court also has the ability to approve or modify the PPC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the PPC. In addition, Fiscal Court is financially accountable for the PPC; legally entitled to the PPC's resources as well as legally obligated for the PPC's debt. Financial information for the Public Properties Corporation is blended within Metcalfe County's financial statements.

Additional - Metcalfe County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Metcalfe County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Metcalfe County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Metcalfe County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, State Grant Fund, Disaster and Emergency Services Fund, Ambulance Fund, and County Parks Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Metcalfe County Special Revenue Fund Type includes the following county funds: Community Development Block Grant Fund and Animal Shelter Fund.

3) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Metcalfe County Public Properties Corporation Construction Fund of the Fiscal Court is reported as a Capital Projects Fund Type.

4) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Metcalfe County Public Properties Corporation Sinking Fund. Debt service is provided by rental payments in the amount of the bond payments from Administrative Office of the Courts, Commonwealth of Kentucky.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Metcalfe County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Animal Shelter Fund and Metcalfe County Public Properties Corporation Sinking Fund. The Animal Shelter Fund consists of donations from private citizens for the purpose of constructing an animal shelter when sufficient funds become available. The Metcalfe County Public Properties Corporation Sinking Fund consists of funds related to the debt service requirements of a bond issuance. The Department for Local Government does not require these funds to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Metcalfe County Fiscal Court: Edmonton Metcalfe County Industrial Development Authority and Metcalfe Health Services, Inc.

G. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Metcalfe County Fiscal Court.

Ambulance Service Corporation, Inc.

The Metcalfe Fiscal Court has retained an ongoing financial responsibility for the Ambulance Service Corporation, Inc. (Ambulance Service). The Ambulance Service is a joint venture among Barren County Fiscal Court, City of Edmonton, City of Glasgow, TJ Sampson Community Hospital, and Metcalfe County Fiscal Court to provide emergency medical care service and transportation to the citizens of Barren County, City of Glasgow, and Metcalfe County. Each participating entity is responsible for a proportionate part of any deficit (10 percent of deficit for each board member. The Fiscal Court has two board members; therefore, the Fiscal Court is responsible for 20 percent of any deficits of the Ambulance Service.

Barren Metcalfe Emergency Communications Center

The Metcalfe County Fiscal Court, Barren County Fiscal Court, City of Glasgow, City of Cave City, City of Park City, City of Hiseville, and City of Edmonton entered into an interlocal agreement to provide enhanced 911 services to the citizens of Metcalfe County and Barren County. This interlocal agreement established the Barren Metcalfe Emergency Communication Center (BMECC). Under the agreement, the Metcalfe County Fiscal Court is required to establish and collect 911 fees. These 911 fees are to be remitted to the BMECC.

Edmonton Metcalfe County 911 Board

The Metcalfe County Fiscal Court (Fiscal Court) and City of Edmonton entered into an interlocal agreement to provide 911 services to the citizens of Metcalfe County. On September 14, 1993, the Fiscal Court voted to "share 50/50 the cost of police dispatching" with the City of Edmonton.

METCALFE COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond. However, on August 31, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,545,805 of public funds uninsured and unsecured. In addition, the county did not have a written agreement with the depository institution securing the county's interest in the collateral.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2002.

	<u>Bank Balance</u>
FDIC insured	\$ 300,000
Collateralized with securities held by pledging depository institution in the county's name	1,532,813
Uncollateralized and uninsured	<u>1,545,805</u>
Total	<u><u>\$ 3,378,618</u></u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Long-Term Debt

First Mortgage Revenue Bond, Series 2001 - Metcalfe County Public Properties Corporation
Sinking Fund

Metcalfe County Public Properties Corporation (PPC), an agency and instrumentality of the Metcalfe County Fiscal Court (Fiscal Court) created on January 23, 2001, issued Metcalfe County Public Properties Corporation First Mortgage Revenue Bonds (bonds), Series 2001, on October 1, 2001, for the purposes of acquisition, construction, installation, and equipping of the Metcalfe County Courthouse Facility. On October 9, 2001, \$4,850,000 of bonds were issued at various interest rates. Since these bonds were issued at a discount of \$96,950, net bond proceeds were \$4,753,050. The PPC has entered into an agreement to lease the Metcalfe County Courthouse Facility to the Fiscal Court for the amount of the bond payments. The Fiscal Court has a sublease with Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the Metcalfe County Courthouse Facility. Debt service requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 203,984	\$ 165,000
2005	199,034	170,000
2006	193,721	175,000
2007	188,253	180,000
2008	182,043	190,000
2009-2013	796,313	1,060,000
2014-2018	558,960	1,290,000
2019-2023	<u>235,470</u>	<u>1,620,000</u>
Total	<u>\$ 2,557,778</u>	<u>\$ 4,850,000</u>

5. Lease Agreements

A. Fire Truck Lease - General Fund

On March 4, 1996, the Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of a fire truck. The Principal was \$100,000 at various interest rates, with interest and principal paid monthly. Principal outstanding as of June 30, 2003 was \$10,210. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 204	\$ 10,210
Total	<u>\$ 204</u>	<u>\$ 10,210</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

5. Lease Agreements (Continued)

B. Road Grader Lease - Road Fund

On January 11, 2000, the Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of a road grader. The principal was \$66,355 at various interest rates for a period of five years, interest and principal paid monthly. Principal outstanding as of June 30, 2003, was \$22,545. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 638	\$ 14,107
2005	112	8,438
Total	<u>\$ 750</u>	<u>\$ 22,545</u>

C. Computer/Telephone Equipment Lease - General Fund

On August 8, 2000, the Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of trucks for the road department. The principal was \$28,985 at various interest rates for a period of three years, interest and principal paid monthly. Principal outstanding as of June 30, 2003, was \$2,036. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 15	\$ 2,036
Total	<u>\$ 15</u>	<u>\$ 2,036</u>

D. Trucks Lease - Road Fund

On March 6, 2001, the Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of trucks for the road department. The principal was \$90,000 at various interest rates for a period of five years, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2003, was \$56,000. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

5. Lease Agreements (Continued)

D. Trucks Lease - Road Fund (Continued)

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 2,264	\$ 18,000
2005	1,404	19,000
2006	517	19,000
Total	<u>\$ 4,185</u>	<u>\$ 56,000</u>

E. Enrichment Center Lease - General Fund

On March 2, 2002, the Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the Metcalfe County Enrichment Center Project. The principal was \$250,000 at various interest rates for a period of twenty years, interest and principal paid monthly. Principal outstanding as of June 30, 2003, was \$238,673. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 9,215	\$ 9,398
2005	8,840	9,708
2006	8,453	10,028
2007	8,052	10,359
2008	7,639	10,701
2009-2013	31,501	59,039
2014-2018	18,917	69,441
2019-2022	4,612	59,999
Total	<u>\$ 97,229</u>	<u>\$ 238,673</u>

F. Maintenance Garage

On August 31, 2003, the Metcalfe County Fiscal Court entered into a lease-purchase agreement with the Commonwealth of Kentucky. The lease-purchase agreement was for the purchase of the property of the Old State Maintenance Garage. The principal was \$40,000 interest free for a period of five years, paid annually. Lease payment requirements are:

METCALFE COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

5. Lease Agreements (Continued)

F. Maintenance Garage (Continued)

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$	\$ 8,000
2005		8,000
2006		8,000
Total	\$ 0	\$ 24,000

Note 6. Reserved Fund Balances

Reservations of fund balance represent amounts that are legally segregated for a specific purpose. The following funds had reserved fund balances.

A. General Fund Type

As of June 30, 2003, \$312,400 of fund balance of the General Fund Type was reserved because these funds were legally restricted as follows:

- 1) Metcalfe County Fiscal Court received funds in the amount of \$250,000 from a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). These funds are legally restricted to be used for the Metcalfe County Enrichment Center Project. The unexpended balance as of June 30, 2003, was \$18,552.
- 2) Metcalfe County Fiscal Court received funds from various grants. These funds are legally restricted to be used for the grant projects. The unexpended balance as of June 30, 2003, was \$2,847.
- 3) Metcalfe County Fiscal Court received funds from an ambulance tax. These funds are legally restricted to be used for the ambulance service. The unexpended balance as of June 30, 2003, was \$291,001.

B. Special Revenue Fund Type

As of June 30, 2003, \$1,694 of fund balance of the Special Revenue Fund Type was reserved because these funds were legally restricted as follows:

- 1) Metcalfe County Fiscal Court received funds from a Community Development Block Grant. These funds are legally restricted to be used for the Metcalfe County Enrichment Center Project. The unexpended balance as of June 30, 2003, was \$4.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Reserved Fund Balances (Continued)

B. Special Revenue Fund Type (Continued)

- 2) Metcalfe County Fiscal Court received funds from donations of private citizens. These funds are legally restricted to be used for the purpose of constructing an animal shelter when sufficient funds become available. The unexpended balance, as of June 30, 2003, was \$1,690.

C. Capital Projects Fund Type

The fund balance of the Metcalfe County Public Properties Corporation Construction Fund - Capital Projects Fund Type is reserved because these funds are legally restricted to be used for the Metcalfe County Courthouse Facility Project. The unexpended balance, as of June 30, 2003, was \$7,648.

Note 7. Subsequent Events

A. Additional Bond Issuance

On July 22, 2003, the Metcalfe County Fiscal Court and Metcalfe County Public Properties Corporation approved the 2nd reading of the Bond Ordinance for the sale of \$400,000 additional bonds. On August 5, 2003, the Metcalfe County Fiscal Court authorized the Metcalfe County Public Properties Corporation to approve Hilliard-Lyons to act as financial advisors for the issuance of Series 2001 B Bonds in the amount of \$400,000. The net proceeds are to be used to (i) construct and equip a new Courthouse Facility; (ii) pay the design costs; (iii) capitalize interest during construction of the Project, and (iv) pay the costs of issuance of the Series 2001 Bonds. On August 1, 2003, the bonds were issued. Interest on the Series B Bonds is payable each April 1 and October 1, beginning October 1, 2003.

B. Land and Building Purchase

On September 23, 2003, the Metcalfe County Fiscal Court approved to grant County Judge/Executive the authority to enter into an option to purchase agreement for a building and land on Industrial Drive. On October 4, 2003, Metcalfe County Fiscal Court entered into the option agreement. Option consideration was \$3,000 and the purchase price \$165,000. Metcalfe County Fiscal Court was deeded the land on December 29, 2003, and is in the process of financing the purchase price through Kentucky Association of Counties Leasing Trust.

Note 8. Insurance

For the fiscal year ended June 30, 2003, Metcalfe County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

METCALFE COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Types</u>			
General Fund	\$ 1,475,709	\$ 1,090,110	\$ (385,599)
Road and Bridge Fund	1,577,960	861,700	(716,260)
Jail Fund	37,861	39,005	1,144
Local Government Economic Assistance Fund	7,844	7,844	
State Grant Fund	400,000	25,777	(374,223)
Disaster and Emergency Services Fund	7,907	7,435	(472)
Ambulance Fund	195,800	177,789	(18,011)
County Parks Fund	4,400	3,720	(680)
<u>Special Revenue Fund Type</u>			
Community Development Block Grant Fund	49,000		(49,000)
<u>Capital Projects Fund Type</u>			
Public Properties Corporation Construction Fund	<u>223</u>	<u>13,453</u>	<u>13,230</u>
Totals	<u>\$ 3,756,704</u>	<u>\$ 2,226,833</u>	<u>\$ (1,529,871)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 3,756,704
Add: Budgeted Prior Year Surplus			5,494,792
Less: Other Financing Uses			<u>(77,290)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 9,174,206</u>

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SCHEDULE OF OPERATING REVENUE

METCALFE COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

Revenue Categories	GOVERNMENTAL FUND TYPE			
	Totals (Memorandum Only)	General Fund Types	Special Revenue Fund Type	Capital Projects Fund Type
Taxes	\$ 1,017,848	\$ 1,017,848	\$	\$
In Lieu Tax Payments	63,506	63,506		
Excess Fees	3,765	3,765		
Licenses and Permits	2,626	2,626		
Intergovernmental Revenues	1,029,423	1,029,423		
Charges for Services	826	826		
Miscellaneous Revenues	65,494	65,271		223
Interest Earned	43,361	30,115	16	13,230
Total Operating Revenue	<u>\$ 2,226,849</u>	<u>\$ 2,213,380</u>	<u>\$ 16</u>	<u>\$ 13,453</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

METCALFE COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPES		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 516,022	\$ 479,487	\$ 36,535
Protection to Persons and Property	427,253	385,996	41,257
General Health and Sanitation	480,643	78,048	402,595
Social Services	2,100	2,000	100
Recreation and Culture	6,400	5,552	848
Roads	839,167	697,841	141,326
Debt Service	338,779	13,542	325,237
Capital Projects	32,006	16,003	16,003
Administration	2,482,613	223,367	2,259,246
Total Operating Budget - General Fund Types	\$ 5,124,983	\$ 1,901,836	\$ 3,223,147
Other Financing Uses:			
Capital Lease Agreement- Principal on Lease	77,290	77,290	
TOTAL BUDGET - GENERAL FUND TYPES	<u>\$ 5,202,273</u>	<u>\$ 1,979,126</u>	<u>\$ 3,223,147</u>

METCALFE COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

SPECIAL REVENUE FUND TYPE			
<u>Expenditure Categories</u>	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
General Health and Sanitation	\$ 49,000	\$	\$ 49,000
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 49,000</u>	<u>\$ 0</u>	<u>\$ 49,000</u>
CAPITAL PROJECTS FUND TYPE			
<u>Expenditure Categories</u>	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
Capital Projects	\$ 1,885,304	\$ 1,623,047	\$ 262,257
Administration	2,114,919	58,759	2,056,160
TOTAL BUDGET - CAPITAL PROJECTS FUND TYPE	<u>\$ 4,000,223</u>	<u>\$ 1,681,806</u>	<u>\$ 2,318,417</u>

SCHEDULE OF OTHER EXPENDITURES

METCALFE COUNTY
SCHEDULE OF OTHER EXPENDITURES

For The Fiscal Year Ended June 30, 2003

	<u>General Fund Type</u>	<u>Debt Service Fund Type</u>
<u>Expenditure Items</u>	<u>General Fund</u>	<u>Sinking Fund</u>
Professional Fees	\$ 100	\$
Bond Interest Paid		101,992
	<u>100</u>	<u>101,992</u>
Totals	<u>\$ 100</u>	<u>\$ 101,992</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donald M. Butler, II, Metcalfe County Judge/Executive
Members of the Metcalfe County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Metcalfe County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated January 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Metcalfe County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral of \$1,545,805 And Enter Into A Written Agreement To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metcalfe County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, cursive script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
January 26, 2004

COMMENT AND RECOMMENDATION

METCALFE COUNTY
COMMENT AND RECOMMENDATION

For The Fiscal Year Ended June 30, 2003

The County Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral Of \$1,545,805 And Enter Into A Written Agreement To Protect Deposits

On August 31, 2002 \$1,545,806 of the county's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The county should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the county enter into a written agreement with the depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Judge/Executive Donald M. Butler, II's Response:

The J/E has met with officers of Edmonton State Bank and it has been agreed that in the future all deposited funds in Edmonton State Bank will be secured by the depository. The County Treasurer sent a request to First National Bank to return a written Security Agreement and as of the date of the exit conference, January 26, 2004, had not received the same, however, the County Treasurer will contact the Bank again for said agreement. The County Treasurer will also monitor the bank accounts as to the security pledge. Securities were increased; however, it was after the date that auditors checked.

PRIOR YEAR FINDING

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,279,985 And Entered Into A Written Agreement To Protect Deposits

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CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

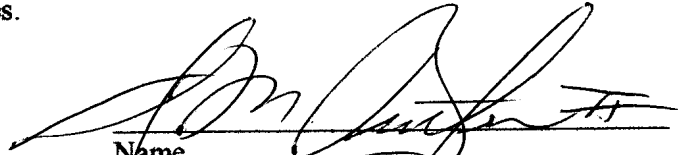
METCALFE COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
METCALFE COUNTY FISCAL COURT

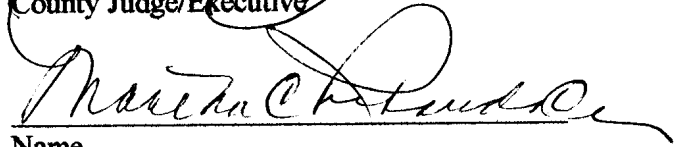
For The Fiscal Year Ended June 30, 2003

The Metcalfe County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name

County Judge/Executive



Name

County Treasurer

